

# Healthy Wisconsin

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Defining the Target Population: Policy  
and Program Issues



# Presentation Overview: Key Questions

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- ❑ Why is determining the target population important?
- ❑ What specific “target population” challenges exist in designing a successful reinsurance program.
- ❑ What are some possible target options?

# Why is choosing the right target important?

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- ❑ The design specifics of any insurance or reinsurance product is extremely important.
- ❑ Experience in other states suggests that poor design leads to low program enrollment and minimal if any effect on health insurance costs.
- ❑ While high health care costs are a problem for everyone, some segments of the market face bigger challenges.
- ❑ If subsidies or mandates are required the scope of the program will be extremely important.



# Key “Target” Policy Questions

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What is the policy problem you are trying to solve?

- High health care costs across the entire economy?
- Fear of catastrophic health care events for families (bankruptcy issue?)
- Weakness in the small group/non-group health insurance market?
- Rising number of uninsured?

□ Who do you want to help?

- All businesses?
- All residents?
- Small businesses only?
- The uninsured?

# Key Policy Challenges (cont.)

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- ❑ Addressing “adverse selection”
  - High risk/high cost individuals are more likely to purchase health insurance than low-risk/low cost individuals.
  - Insurance companies fear this outcome. Use underwriting and other strategies to identify high risk individuals and charge them higher premiums. Adverse selection can put insurance companies out of business.
  - Reinsurance programs face the same challenge.
  - Adverse selection can be addressed through restrictions in access to the program, underwriting, mandates and subsidies.

# Key Policy Challenges (cont.)

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- Weakening of the small group health insurance market.
  - Fewer and fewer small employers are offering health insurance (Urban Institute, 2005)
    - 5.4% decline nationally between 2000-2004 in the number of employees getting health insurance through small employers (<25 employees.)
    - This decline occurred at the same time as the number of people working for small firms rose.
    - During the period, 2.6 million of the 3.8 million increase in the number of uninsured workers nationally occurred among the self-employed and small firms.
  - Only 44% of small firms (<50 employees) offer health insurance in Wisconsin (MEPS, 2003)
  - Cost is often cited as the reason for not offering health insurance to employees.
  - Likelihood of adverse selection is higher with small employers, especially as fewer and fewer offer health insurance.

# Key Policy Challenges (cont.)

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## □ Crowd-out

- Government intervention in health care is often associated with “crowd-out”
- Crowd-out occurs when individuals or businesses leave their private insurance plans and enroll in government-funded plans.
- Crowd-out can raise government program costs and make them difficult to sustain.

## □ Cost

- If the reinsurance program is going to include a subsidy the question of program target and scope is especially important.
- Subsidies can be structured so that only certain program participants can benefit but more money is required if broad-based subsidies are utilized and the target population is large.

# Population Target Options

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Options for the Healthy Wisconsin Council to Consider



# Population Target Options

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## 1. Small businesses and non-group market

- Create a reinsurance program that is open to individuals and certain/all small businesses.
- Healthy New York could serve as the model including the link to managed care to provide a comprehensive benefit.
- Strengths
  - Addresses the most pressing problem (small/non-group market.)
  - Funding needs more limited than statewide pool.
  - Avoids ERISA issue (self-funded plans exempt from state insurance laws.)
- Weaknesses
  - Doesn't benefit everyone. Large businesses also face high health care costs.

# Population Target Options (cont.)

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## 2. Entire state population

- Create a reinsurance program that would be available to all Wisconsin residents and businesses.
- Program could be modeled on other successful government reinsurance programs (ex: Patient Compensation Fund)
- Strengths
  - Potential for statewide impact.
  - Could give Wisconsin an economic competitive edge.
- Weaknesses
  - Challenges with funding, take-up and self-funded plans (ERISA).
  - Either a mandate or large subsidy would be necessary to avoid adverse selection problems.
  - Implementation may be a challenge.

# Population Target Options (cont.)

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## 3. “Hybrid Solution”

- Example: Healthy New York – type program for small businesses and low income individuals but allow other Wisconsin residents/businesses to purchase catastrophic insurance.
- Strengths
  - Addresses both the core of the problem (small/non-groups) but also provides a statewide benefit.
  - Subsidy could be limited to only the small/non-group market to keep down costs.
- Weaknesses
  - Difficult to control adverse selection issues if statewide portion is optional.
  - Risk of “moral hazard” (uncontrolled utilization) by those in catastrophic insurance. Cost sharing would be a must.
  - Catastrophic insurance market already exists.

# Population Target Options (cont.)

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## 4. Pilot Program

- Create a pilot reinsurance program.
- The pilot could focus either on a specific target population (Co-Op Care?) or region (1 or 2 counties).
- The pilot could be either highly focused or universal in terms of coverage
- Benefits
  - Limited scale and limited cost.
  - Work with willing participants (example: cooperatives)
- Weaknesses
  - Limited benefit
  - Would require additional legislation to expand beyond pilot status if successful.



# Population Target Options (cont.)

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□ Other???

# Discussion and Questions

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## Healthy Wisconsin

A Program to Lower Costs and  
Increase Access to Insurance  
for Businesses and Families